Johnson, Andrew

Some observations on the recent supplies of gold

London

1852

97-84273-10
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

Johnson, Andrew
Some observations on the recent supplies of gold with remarks on Mr Scheer's letter to Sir F. Baring London, Richardson 1852 0 35 p

No. 2 of a volume of pamphlets.
Only ed

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 12-3-97 INITIALS: PB

TRACKING # : 30043

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

SOME OBSERVATIONS

ON THE

RECENT SUPPLIES OF GOLD,

WITH

REMARKS

ON

MR. SCHEER'S LETTER TO SIR F. BARING.

BY ANDREW JOHNSON,

Bullion-Office, Bank of England.

LONDON:

PELHAM RICHARDSON, 23, CORNHILL.

1852.

SOME OBSERVATIONS,

ETC. ETC.

The Effect of the recent Supplies of Gold upon the relative Values of Gold and Silver.

When public attention first turned itself to the supplies of Gold from California, the form in which the effect of those supplies was discussed was in their influence on the relative values of Gold and Silver, and it was apprehended that Silver would become rapidly appreciated as the increasing supplies of Gold depreciated its metallic rival. These views were greatly supported by the circumstance, that the demonetization of the Dutch Gold coin was effected at that time, and was immediately brought into relation to the topic engrossing public attention.

It was argued that the operation was a full proof of the opinions held upon the point by intelligent men on the Continent, in total forgetfulness of the fact that the operation had been resolved upon in the Dutch Chambers an entire twelvemonth before

the public attention was drawn to California, and consequently on ground quite irrespective of its influence. It was said the extraction of Silver from its ores is a much more complicated process than the simple gathering which is sufficient in the collection of Gold. To gain Silver from its ores requires a large establishment and a scientific process, implying the application of a large capital to the business, while with Gold it is far otherwise.

These considerations were thought to support the popular opinion, that the value of Silver must soon rise in relation to Gold, in the presence of so great an increase in the production of the latter metal. But these are not all the circumstances which must be taken into account, and there are others which go far to counteract such a tendency as is thus attempted to be proved.

The first of these is the comparatively great geographical extent of Silver-yielding countries as compared with Gold-producing ones, and the fact that it is profitably mined for, and not exhausted so soon as the surface is cleared of its Gold-containing constituents, *as is* the case with the latter metal. A large element in the cost of extracting Silver from its ores is formed by the price of the quicksilver which is necessary for that process, and until very lately all the quicksilver of the world had fallen into so few hands as to become a virtual monopoly. Before the outbreak of the war between Spain and its colonies, the old country used to supply from its mines at Almaden (the most fruitful

source of quicksilver in the world)* its colonies with quicksilver at 50 dollars per quintal delivered in the interior, but since the establishment of the independence of the South American States it has risen under the late monopoly so high as 130 to 160 dollars per quintal. The natural consequence has been that many silver mines, the works of which were not destroyed during the war, have been since abandoned from the impossibility of working them to a profit, while quicksilver ranged at so high a price, and this on so large a scale, that many thousand tons of silver ore are said to exist in South America ready prepared for amalgamation, but lying unreduced through the high price of quicksilver.

The very country from which the cause of disturbance in the relative values of Gold and Silver is expected, offers at the same time a most influential agent in its re-establishment. The quicksilver mines of California are reported to be rich beyond example and inexhausible in extent. In a letter from Mr. Burnett, Governor of California, published at Washington, it is said that Mr. Forbes's Mine, New Almaden, yields 8000 lbs. daily, and that this is only one of several mines in California, though the

* Whole production of Quicksilver in Europe.

Almaden, Spain	Quintals	22,000
Idria	,,	1,500
Bavarian Rhine	,,	500
	Quintals	24,000

One quintal = 100 lbs. avoirdupois.

largest. How soon this new source of quicksilver will renew activity in the mining districts of South America may be easily imagined; already its price has sunk to its former level; and it can be had in the interior at 50 dollars per quintal, and that it will continue to sink can hardly be doubted. The extent of the field of silver mining seems to stand in a simple relation to the price of quicksilver, the cheaper the quicksilver the broader the extent of operations. At 50 dollars per quintal, ore yielding about £13 per ton can, I believe, be worked to a profit, and with cheaper quicksilver of course poorer ores. I have not been able, after most diligent enquiry, to come to any conclusion as to the exact degree of richness in the ore, which a given price of quicksilver would allow of being worked to a profit. Nor do I think that such an estimate can be made, as it must depend upon many other circumstances, as the skill of the operator, the excellence of his machinery, and the degree of intelligent supervision and economy exercised by the inspector of the works. In all which points there seems from all accessible accounts to be room for very considerable improvement, which improvement could not fail to be one of the first consequences of any increased demand for Silver, and such demand must necessarily spring up so soon as its value is in any degree enhanced in relation to Gold.

I subjoin a monthly list of the prices of Silver since the first appearance of Californian Gold in the London market, and it will be found to have expe-

rienced no enhancement, but at the present moment to be at the same point as in 1849. The large

	1849.	1850.	1851.	1852.
January ..	$59\frac{5}{8}$	$59\frac{5}{8}$	$61\frac{5}{8}$	$60\frac{1}{2}$ $60\frac{3}{4}$
February ..	$59\frac{3}{4}$	......	$61\frac{5}{8}$ $61\frac{1}{2}$	$60\frac{1}{2}$
March	60	......	$61\frac{1}{2}$	$60\frac{7}{8}$
April	$59\frac{7}{8}$	$59\frac{5}{8}$	$61\frac{1}{2}$	60 $60\frac{3}{8}$
May	......	......	$61\frac{1}{8}$	$59\frac{7}{8}$
June.....	$59\frac{5}{8}$ $59\frac{1}{2}$	......	$60\frac{3}{4}$ $60\frac{7}{8}$	
July	$59\frac{5}{8}$ $59\frac{3}{4}$	$59\frac{3}{4}$ $59\frac{7}{8}$	$60\frac{7}{8}$	
August	$59\frac{7}{8}$ $59\frac{3}{4}$	$59\frac{7}{8}$	$60\frac{3}{4}$ $60\frac{7}{8}$	
September	$59\frac{3}{4}$ $59\frac{1}{2}$	60 $60\frac{1}{8}$	$60\frac{5}{8}$ $60\frac{1}{2}$	
October ..	$59\frac{1}{2}$	$60\frac{1}{4}$ $60\frac{3}{8}$	$60\frac{1}{4}$ $60\frac{3}{8}$	
November..	$59\frac{3}{8}$ $59\frac{1}{2}$	$60\frac{3}{8}$ $61\frac{1}{4}$	$60\frac{3}{8}$ $60\frac{1}{2}$	
December..	$59\frac{1}{2}$	$61\frac{1}{2}$	$60\frac{3}{4}$	

prices of 1850 and 1851 were occasioned by the disturbed state of the continent and by a great demand for the Indian market, and these causes of high price being withdrawn, the increased supplies of Gold are found to have exerted no influence upon the price of Silver. Upon the whole it seems probable that increased facilities in gaining Silver from its ores will tend to maintain or at least to prevent any great disturbance in the present relative values of Gold and Silver, as the first symptom of such disturbance would infallibly attract a large amount of capital to the production of Silver under such new and advantageous circumstances, and thus re-

establish the accustomed relation between its value and that of Gold.

From this it will be seen that there is one point of view in which Silver mining and Gold digging most curiously differ. Silver cannot be acquired without the application of capital, and consequently its acquisition is seldom a more profitable business than any other which implies a large capital, for if otherwise, the competition of capitalists would soon reduce its profits to the general mercantile average of the time. With Gold digging it is quite different, the only capital necessary being the food, clothing, and simple tools of the digger. The consequence is that but small attention is attracted by the profits of Silver mining, which are not so notorious as the occasional success of a fortunate digger, and from the comparatively business-like manner in which Silver mines are managed the losses are better balanced against them, while in the popular imagination the instances of success are not at all balanced by the numerous failures, which would go far even in the present anomalous state of Gold production to bring the general average of earnings in that pursuit much nearer the rate of English remuneration for unskilled labour than is at all supposed.

To estimate such average earning is of course impossible; the data do not exist with sufficient accuracy; but I think it may be safely affirmed that such considerations but little affect the general notions of wealth, prosperity, and rapidly acquired

fortune which are associated in the public mind with California and Australia.

It is at least a curious consideration that in these days of enquiry into the relations between capital and labour, the most prominent attraction of the time should be to a pursuit in which capital, from the nature of the case, cannot compete; for the profits of capital depend upon the nature of the contract between the capitalist and the labourers he employs, and what contract would bind a man to work at the diggings for less than he could find in them, and what capital could subsist if he did not? How far the labouring classes of this country are prepared for taking advantage of such an opportunity as is supposed to be offered them, is a question beyond the limits of my present subject.

The Effect of the recent Supplies of Gold on General Prices.

Before we can come to any decided opinion on this subject, it is necessary to consider in what manner the amount of bullion in the world affects general prices at all; and an attentive reflection will, I think, lead to the opinion that the more civilized a country becomes the less does the amount of bullion in it affect general prices.

Where property is insecure from misgovernment, the chance of arbitrary exaction, or any other cause, its value is of course greatly lessened in comparison with so portable and easily concealed a thing as bullion, whether Gold or Silver, when offered in exchange for either of the latter; but as a country progresses in civil liberty and permanent institutions, the power of bullion or mere coin decreases in the same ratio; other means of exchanging commodities arise, until at last those metals, which at first performed every exchange, are reduced to the office of providing small change only.

These considerations lead me to make a few remarks upon a pamphlet by Mr. Scheer, which is by so far the most clear-sighted of the many tracts and pamphlets that have appeared upon the engrossing subject of the great increase in our supplies of Gold, that it becomes the more necessary to meet and controvert such opinions in his work as are sus-

ceptible of question. The independent judgment to which he lays claim cannot be denied him, and from such persons a dispassionate attention to equally independent differences of opinion may be confidently expected.

Mr. Scheer seems to me in some degree infected by the common notion that commodities exchange for Gold only, whereas the fact is that they are not exchanged *for* but *by* Gold—commodities exchange for commodities.

It is probable that a man of Mr. Scheer's perspicacity would immediately assent to the above proposition when stated in its naked and theoretical form, but he has in a variety of expressions in his book been far from bearing it sufficiently in mind, as for instance at page 11, where he supposes a general settling day, and thinks it *most likely* that the precious metals could not be furnished to anything like the amount required. Nothing can be more certain than that all the Gold and Silver in the world would be ridiculously inadequate to such a purpose. How much a greater clearness upon this point would have contributed to the solution of many of the points touched upon needs hardly to be developed.

The general importance of this truth, that goods are exchanged *by* money and not *for* it, cannot be overstated. The light which its full perception immediately throws upon all questions of monetary derangement is of itself a reason which must fill every thinking man with great surprise that this

truth is not more frequently seen in the van of discussion on such subjects.

If goods are simply circulated by money, it becomes evident that a given amount of money is capable of circulating goods to an amount infinitely greater than itself, as it is free for a fresh operation of the kind so soon as the first is accomplished.

This is true of money in any form, but of course, in the fullest sense, of coined money only, and the degree in which its powers are shared by bank-notes, bills, and cheques, is dependent simply upon their degree of credit.

Those complaints which are from time to time heard of a deranged currency are always misdirected; the real fact in every case is not a deranged currency, but a disturbed confidence. So long as confidence continues, a very small currency is adequate to the exchanges of a vast commerce; but so soon as mutual confidence is checked, all kinds of money but coin and such notes as are immediately convertible into coin lose that power which it had given them, and the currency is said to be deranged without having undergone the slightest change from what it was while giving to the complaining parties the fullest satisfaction.

That any system of currency can be invented which shall meet the needs of a general state of anxiety and discredit, and yet accommodate itself to the economising tendencies of a high condition of the banking system, seems a too chimerical supposition to be entertained, but in fact nothing short of this is demanded in a thousand forms at every returning period of commercial difficulty.

In a commercial community it is too great a temptation to throw the blame of their own reckless trading or of utterly unavoidable misfortune upon a word so little understood as currency; its obscurity renders it a most excellent buckler, and it is most efficiently used to divert the arrows of reproof from their true aim.

This accustomed service is too valuable a one to be soon relinquished, and it will be probably long before we hear of a disturbed credit in place of a deranged currency.

In his first paragraph, p. 5, Mr. Scheer, in recounting the needless and extravagant alarms that have been entertained, and the absurd conclusions that have been drawn, " that the fundholders will be beggared, and fixed incomes give no security against want," refers, and with justice, to the general tenor of his argument for their removal and refutation. But as no general alarm ever exists without some foundation, erroneous or otherwise, it would have been well to have traced the source of the prevailing exaggerated tone of argument upon this point to its primary misconceptions

The first of these seems to me to consist in a comparison of the present rate of progress in the production of the precious metals with that of the last few years, and in a rough and hazardous conclusion as to what must be the effect of so large a compara-

tive increase on the value of the material now so much more abundantly supplied.

But before any depreciating effect can be produced, the whole mass of the precious metals still existing in the world must be affected, and the depreciation is governed by the relation in which the new supplies stand to that mass, and not by a comparison of the great productiveness of the last two or three years ranged with any limited period before them. How large that mass may be it is perhaps hazardous to conjecture, but certainly it is so great as to make recent additions to it tell upon its quantity at a very small per-centage, even if those additions were to be taken as the guage of future supply, than which nothing is less likely.

It is well known that the first yield of any Gold district is by far the richest; that it is of all metals the soonest exhausted in situ; that mining, properly so called, has never yet been a profitable undertaking where Gold is concerned, so that the great probability is, that after some years the present supplies will greatly fall off, and those who have been attracted to Australia and California in search of Gold will remain there in other and more civilising pursuits.

The second cause of popular misconception in the matter arises from the notion, that the prices of commodities stand in a direct relation between their quantities and the amount of Gold and Silver money in the world, of which I have already spoken.

With respect to the effect of the increase of the precious metals upon fixed incomes, annuitants, and fundholders, there can be no doubt of the tendency of such an increase to diminish the purchasing power of their incomes; but, on the other hand, I have already given reason to believe, that though the tendency be decided and undeniable, the rate of its progress is most slow; that it cannot be expected to continue long exerting the same force; and it remains to be urged, that the great impulse to production given by the wants of two more such great markets for our goods as California and Australia, must have a tendency to cheapen almost all things to an extent which will go far to meet any deficiency in the purchasing power of such incomes; even in the cases few indeed, and the only ones vitally concerned, that do not admit of withdrawal of their sources and application of the capital to other and more lucrative employment.

In one place, Sect. V., Mr. Scheer seems to think that the value of the precious metals is dependent upon some peculiarity withdrawing it from the law which determines the value of all other products of human industry; that, in fact, the amount of labour applied to their extraction is not the determining element in their value.

In this I think he is misled by too vivid a picture of a successful and careless digger, who parts with the produce of a few days' labour in the dissipation and debauchery of still fewer. But a more extended consideration of the whole yield of any Gold country, compared with all the gold-seekers in

it, would probably (could we arrive at just premises) yield a general rate of remuneration but little above the average wages of the world.

There is still one point in which I cannot see that Mr. Scheer has made out his case. He imagines that the first symptom of a depreciation of the purchasing power of the precious metals would be a gradual and steady increase in the rate of interest.

He rightly shows that interest consists of two elements, viz., the profit to the lender, and the insurance of that profit; and that when the second element is eliminated by the assured stability of the borrower, interest practically sinks down to the rate which will supply the first element only of interest. He then argues, that if it were anticipated that at the expiration of the loan the sum lent would have lost a part of its purchasing power, the lender would be enabled to charge a premium on its present power by way of insurance; but things to be insured are casualties, as a man's solvability, honesty, or prospect of being able to repay the loan, and not certainties, as a well-known approaching depreciation in the value of the thing lent. Surely the competition of the lenders would deprive each of them of the power of exacting any such premium; and the more so as the anticipated depreciation would make all lenders anxious to realize a profit at the existing rate rather than the less one, which would be the consequence of the state of things they feared.

The precious metals, or their immediate representatives, must always be the form which floating capital will assume, and the rate of interest will always depend upon the amount of such floating capital and the general profits of trade, irrespective of recondite considerations as to the state of the money market at the due date of the loan.

After these exceptions to some of Mr. Scheer's remarks, I cannot but refer all who are anxious to possess clear notions upon the subject of the present section to his excellent pamphlet. But little can be added to his intelligent array of reasons for concluding that the recent supply of Gold and Silver will have but little, if any, effect upon the general prices of commodities.

The fixed Price of Gold.

It is surprising what a mass of confusion is exhibited by the prevalent notions upon this topic. Nothing is more common than such remarks as these: "What is the Bank to do if it continues to buy Gold at £3 : 17 : 9 per ounce standard, when every day is lessening its value?" Or again, "If something be not soon done, and things continue as they are, the Bank must be ruined!"—and objectors are triumphantly referred to the recent change in the currency of France, where Gold has to a great extent displaced Silver, formerly the almost exclusive coin; but this instance no more applies to the real point at issue than ground exists for the fears it is intended to support. Such misapprehensions are best met by a contrary assertion, that shall be as startling as themselves; by this means men are forced into a consideration of the real facts involved, which they would not attend to if brought before them in a simply scientific form. Such an assertion I proceed to make in the hope that it may lead to such desirable consequences, and it is, That there is *no* fixed price for Gold. "What!" I can imagine will be exclaimed in a thousand quarters, "no fixed price! surely this man has forgotten Peel's Act; this is but another instance of the very confusion of ideas he complains of." But what is price, if it be not the relation in which every commodity stands to

the money of the country? and how can the price of Gold, which is our money, be determined by a relation to itself? how can the measure of the value of all other things be a measure to itself also? The fact is, that what is called the price of Gold is merely an equivalency of denomination: £3 : 17 : 10½ = 1 ounce standard Gold, which is as much as to say that the price of a sovereign is a sovereign. Peel's Bill enacted that the Bank should give its notes for all Gold that was offered them at £3 : 17 : 9 per ounce standard, which was virtually giving the public that sum of coined money for Gold of a like standard weight. How the Bank could possibly be injured by an operation which virtually give them 1½*d.* per ounce for the trouble of sending the Gold so bought, with their notes, to the Mint for gratuitous conversion into coin, and as a compensation for loss of time during the process, it is difficult to conceive, and has never been attempted to be explained by any of the terrorists who indulge in the remarks criticised. On the notes so parted with by the Bank being presented for repayment, the Bank returns for them, in sovereigns, the same weight of Gold that was given for them, minus 1½*d.* per ounce on that weight, so that any variation that might have taken place during the interval in the value or exchange power of the Gold by no means affects the Bank, they having made the profit provided in the Act, totally irrespective of any change that may have taken place in the meantime in the value of the Gold.

All these misconceptions rest upon a very common confusion of the notion of value with that of price, most distinct ideas, but most commonly used interchangeably by persons who have paid no attention to the theory or true facts of all mercantile transactions.

A few lines back it was said that the Bank sent the Gold to the Mint for gratuitous conversion into coin, and until very recently this was the case; but since the late alterations at the Mint a new regulation has been issued, which in some degree invalidates the absolute truth of this position. It was the case before Sir J. Herschel's appointment that the Mint gratuitously converted *all Gold* into coin, whatever might be its quality; but since that time a charge is made upon all Gold that is less fine than standard, to cover the expense of refining such Gold, or bringing it up to that degree of purity which will fit it for coinage. This expense used to be borne by the nation, together with the other expenses of the coinage, but is now of course a charge upon such persons as sell Gold below the standard fineness, and to that extent limits the general position that the public can require of the Bank £3 : 17 : 9 for every ounce of standard Gold that they present to it.

It is imagined by many that if the Bank were not forced by Act of Parliament to give £3 : 17 : 9 for every ounce of standard Gold presented to it, the great increase in the supplies of that metal would enable the Bank to purchase it at a lower

rate; but so long as the present Mint regulations continue, such a result could not ensue from any increase in the supplies however great. While gold is gratuitously coined at the Mint, the only difference between the Mint price of £3 : 17 : 10½ per ounce standard and the market one is such a difference as will cover the interest upon the sum coined during the time it is detained in the Mint for that purpose; and the first effect of any offer on the part of the Bank of a less sum than £3 : 17 : 10½ minus that difference would be, that the holders of Gold bullion would take it to the Mint to be coined, instead of to the Bank for notes.

But why, it is often replied to such arguments as these, does the Bank stock of bullion so increase in its vaults, and why is money so cheap if it be not the direct consequence of the large increase in the production and importation of Gold from California and Australia?

A little reflection must show that the present state of the money market cannot be the result of so confined a cause as partial alteration of the form in which England receives her returns for commodities in the American and Australian markets. The present low rate of interest speaks simply of a past high rate of profit; the accumulations of all persons engaged in industrial pursuits have reached or touch upon that limit which renders their farther employment in the various trades of which they are the result, no longer profitable, and such surplus capital as the trader can no longer invest

advantageously in his own business, flows through the usual mercantile and banking channels into that general fund of capital seeking investment, which is usually called the money market, and the character of which is of course most strongly marked where the largest part of it exists, viz. at the Bank of England. Such a state of trade of course presents comparatively few borrowers, and even those who do borrow are enabled to do so without applying to the Bank.

If there were not at the present time a very full employment in all the great branches of national industry, the addition of a few millions to the stock of Gold in the country would only enable the Bank to increase her issues, as the notes received for such Gold at the Bank would remain in circulation and thus bring those issues nearer to the limit allowed by her charter. That it is otherwise is a fact full of congratulation to all but holders of Bank Stock, and a great testimony of the wisdom and general beneficence of recent changes in our system of trade, that have brought about such desirable results to all except those who are already rich but wish to be richer. The only evils to be feared, in such a state of things, are such as flow from that impatience of immediate profit which cannot be separated from a large unemployed capital.

Until new forms of industry arise, or until new channels are found for the distribution of the production of old forms, this state of things must continue, unless that impatience above alluded to

should give rise to a reckless and speculative spirit, of which the evil effects have been so often before felt, but which seem to be the fate of too much prosperity.

One very egregious plan has been proposed to do away with the imaginary evils attending the increase in the production of Gold. The writer of a letter in the "Times" some time since proposed that the sovereign should be coined double its weight; lest this dreaded influx of precious metals should disorganise the prices of commodities, it is here proposed to revolutionise them at once, a revolution too of the worst kind, in the interest of all creditors, and to the utter destruction of all debtors. For it cannot be supposed, nor is it maintained, that Gold has lost one half of its exchange power; how much it has lost is perhaps beyond all human calculation; it may even be contended that it has not lost any. But granting for the sake of argument that it has done so, what human power could adjust the balance in such a complicated interest, if that power is to be applied from without, and on the means of exchange, while that adjustment is yet the most natural thing in the world if left to the inner forces of commerce itself, and is always an operation spread over so many years as to fall with the least possible inconvenience upon any whom it may affect. For some excellent remarks upon the principles which should guide us in the face of such propositions as these, I refer to a paper read before the Academy of

Political Sciences at Paris, by H. Storch,* 15th June, 1825, entitled, "Des effêts d'un papier monnaye déprécié dont la valeur se relève"—in which, though the change criticised was of a different character, the effects of all arbitrary interference with the standard of value, whatever that standard may be, are very well exposed.

* Storch was a German in the employ of the Russian court, and Maculloch says of his great work, "Cours d'Economie Politique," that he considered himself fully warranted in placing it at the head of all the works on Political Economy ever imported from the continent into England, and adds in 1850, "I do not know that I have any very good reason for being at the present time of a different opinion." A translation of the essay alluded to above will be found as an Appendix to this pamphlet.

On the proposals for Governmental Interference in Australia.

It is unnecessary to criticise such proposals as have been made advocating an occupation on the part of the Home Government of the whole Gold-yielding district, and working it for the advantage of the Government itself, the public sentiment being quite unaffected by them, and they have received their merited neglect. The like fate has attended all advocacy of the ancient laws by which the precious metals are here looked upon as royalties, and but little attention has been accorded to the endeavour to apply to Australia in the present day the customs of England in the middle ages.

The system of granting monthly licenses to Gold diggers in Australia is a happy substitute; but it may be questioned whether in the great increase of the number of those following this pursuit it will be possible to continue it; an attempt at increasing it from 30*s*. to 60*s*. per month has met with the most decisive defeat. When the field of Gold-digging becomes more extended, and the stations more dispersed, it may be easily imagined that the expense of supervision and collection would be so great as to deprive the Government of any revenue from that source. Everything should be done, however, to support the happily established precedent. The first application of income from such a source should be to the establishment of means of procuring

safety to person and property at the diggings, and that such a result would be cheaply bought by the diggers at the present rate is fully shown by the account of the terribly demoralized and insecure state of all who are engaged in similar pursuits in California. Such a reason for requiring every one who proceeds to the diggings to take out a license is most defensible; it arises from the circumstances of the case and is justified by them. The consequence has been that up to the present time we have heard of nothing but cheerful compliance with a demand on the part of the Government so reasonable in itself. That nothing will disturb an arrangement by which the Gold diggings pay for their own police, by which social order is maintained under circumstances that threaten it with the greatest danger, is a consummation devoutly to be wished. The proposal which has met with most favour, and which has been least fully considered, is one for the establishment of a local mint in Australia.

At Balarat and Mount Alexander Gold worth from 80*s*. to 84*s*. in the London market has been frequently sold for 50*s*. per oz. This natural result of a great and sudden increase of exchanges far outrunning the currency which had been adequate to the previous commercial state of the settlement has given rise to many projects to obviate an evil which could not have been foreseen, and any governmental attempt at the cure of which must come too late, as by the natural progress of business a currency will be certainly supplied to any place which offers such

an overwhelming profit upon the transaction, and that long before any governmental regulations could overtake the necessary and transient evil. The favorite project is the establishment of a local Mint. But setting aside the fact that hitherto all our colonies have been furnished with coins from the London Mint, and for the moment dismissing all consideration of the political effect of such a precedent upon other colonies not similarly situated, it is well to consider whether a great disadvantage would not arise from unavoidable differences, however small, which must exist in the coins of various Mints, however much they may be nominally regulated by the same rules and principles. In the United States there is a decided and very appreciable difference between the coins of the Philadelphia Mint and those of the New Orleans branch; nor is this surprising, when it is considered that the whole manufacture depends, in almost all its stages, upon a nicety of mechanical adjustment, an irremediable source of inexactness, which, though greatly lessened by recent inventions, is a difficulty of considerable magnitude, as may be estimated by those returns of variation, in weight only, of new sovereigns, which were made to the Mint commissioners. These considerations, drawn from the nature of the manufacture, together with the fact that any attempt to establish a local mint could not possibly be carried into effect until the want which called for such interference had by other means been long since set aside, seem to render such an establishment undesirable.

That the want would be so set aside is not a theoretical opinion, as it must be very well known to many that within the last few months vast sums have been remitted to Australia in sovereigns, and that similar remittances in the nature of the case will continue to be made until a speedy equipoise between the number and activity of the exchanges and the amount of the currency of South Australia has been restored.

In California local mints were very soon established, and a great practical inconvenience is the result to bullion dealers; the coins are so much like those of the States (differing in some cases only in the details of the inscription), that great time and trouble are necessary in garbling any quantity of United States coins in which they are present or suspected to be so. If an issue of local tokens were to arise, it would be highly advisable that they should take the appearance of tokens, and be as little like the currency they were to supply as possible. Indeed, I suppose that in a monarchy the sovereign's head could not be made use of with the same impunity with which the national Eagle can in the American republic. A detailed account of most of the American tokens or coins of private Californian mints has been published by Messrs. Eckfeld and Dubois, assayers to the United States' Mint, Philadelphia, as a caution to dealers, and may be consulted with great advantage to the formation of a just opinion of the disadvantages arising from such establishments.

APPENDIX.

The Effect of an Elevation in the Value of a Paper Currency.—By H. Storch.

As the depreciation of a paper money is a calamity which is felt by all the world, many people imagine that the return of such a paper to its primitive value must be a great advantage to society. Few errors in political economy have given birth to so many false measures, and are yet at the same time so easily refuted as this. Paper money is a currency, for in the country where it is in use it serves to pay every price and to liquidate every pecuniary stipulation. The most essential quality of any currency is that it should be unalterable. Its value cannot rise or fall without causing loss to those who make use of it; if its value fall, the loss falls upon the creditors, that is to say, upon all those who have to receive sums stipulated anterior to the fall; if its value rise, the loss falls upon the debtors, or on those who have to pay sums stipulated anterior to the rise. And since every credit implies a debt, and every receipt a payment, it is evident that the total amount of loss is not less great in one of these suppositions than in the other. Let us endeavour to display these effects by the most simple example we can find. An estate is sold, and the price is to be paid in a paper money at the end of the year.

If at the expiration of this term the paper has fallen in value ten per cent, it is the seller who loses that ten per cent.; for although he receives the sum agreed upon, it will no longer purchase the same number of objects that it would have done a year before; all things have become dearer in proportion to the fall in the value of the paper. If, on the contrary, the paper had risen ten per cent., it is the purchaser who suffers the loss, for although he only pays the same nominal sum he had agreed upon, that sum has a greater value, or it will purchase more objects than it would have done a year previous, since the prices of all things have fallen in proportion to the rise in the value of the paper. Thus, while a paper money is depreciating, the loss is borne by all sellers who have parted with their merchandize, their goods, or the produce of their estates on credit; by capitalists, who are repaid the capital they may have lent, or who receive interest upon such capital; by landowners, who have let their estates or who have let their houses; by the employés and pensioners of the State; by clerks and domestics who serve by contract; by all those who live upon a salary or fixed income; and at last, by the Government itself, if it does not wish, or is not able, to raise the taxes, which constitute its income. So long as the depreciation of the paper continues those losses continue to increase; but as soon as the depreciation stops, it becomes possible for the suffering classes to extricate themselves from this crisis, and by degrees revenues may regain their level. Merchandize, land, houses, and all saleable articles, are sold at a price nominally higher; the interest on loans has become higher; the prices of farms and tenancies have risen; all salaries newly fixed have risen, and Government sees itself forced to augment the taxes, and its own interest obliges it at the same time to increase the remuneration of those that it employs. In a word, all prices and all revenues estimated in such a currency are

expressed in a higher figure, but in reality they are the same as before the depreciation of the paper money, with the exception of those which have undergone alteration from other causes, independent of the variation in the value of the currency.

The crisis is thus past, the losses repaired, or at least forgotten, and order re-established in pecuniary transactions. But suppose that some circumstance should cause the paper money to rise to its original value; then everything is overthrown afresh. The same losses renew themselves, though for different classes of society. Those who lose now are such as have purchased merchandise, or funds, on credit; debtors who have to repay the capital they have borrowed, or who have to pay interest upon it; farmers and leaseholders, who must pay their rents; masters who give a fixed and stipulated salary to their clerks, domestics, and workpeople; in fact, all those who have to pay, whether public imposts, or dues to individuals, as for example, with us, the peasant who pays a poll-tax (obrok) to their masters. Most of the States of Europe have experienced the evils which attend a depreciation of their paper money, but the inconveniences which are the consequence of its rise in value have hitherto been felt in England alone, as this is the only country in which a depreciated paper has ever recovered its primitive value. The rarity of such an event is no doubt that feature which has most contributed to disguise its consequences; it is thus important that we particularize them here as an instructive example to all governments that should be tempted to make sacrifices for the amelioration of their depreciated paper money. Every one knows in what distress England was for some years after the termination of that long and expensive war which she carried on against France. By the confession of the most respectable English economists themselves, the principal, though least comprehended cause has been, the

restoration of the value of the paper money. Since 1797, when the payment of the notes of the Bank of England was suspended, these notes had become gradually depreciated to the extent of 40 per cent. in comparison with Gold and Silver. The news of the entry of the Allies into Paris caused them to rise to par in less than three weeks from the 20th March to 10th April, 1814, and that without any co-operation on the part of the Bank or the Government, but solely by the hope of an approaching peace, in the persuasion that that peace would bring with it the resumption of payment of these notes as the Parliament had ordained at the time of the suspension. Let any one represent to himself the effect which would be produced upon all pecuniary transactions by the return to par of a paper which had become the only currency of the richest and most commercial nation in the world. On the Continent this happy island, where the power of credit could work such miracles, was looked upon with eyes of envy—in England this illusion was soon dissipated.

The currency having become 40 per cent. more valuable than it was before, less was necessarily given in the purchase of all saleable things. The receipts of dealers, artisans, and, above all, of farmers, as well as the salaries of workpeople, fell considerably in consequence of this fall of prices, and notwithstanding rent and leases remained at the same rate, and the taxes also; for the Government must continue to pay the same nominal sums to its servants and to its creditors. The tax-payer received reduced values, but paid in entire ones; the servants of the Government, people with fixed incomes, fundholders, and creditors found themselves at great ease; but debtors and the industrial part of the nation suffered much, and, above all, those who could not change their occupation, who could not with facility withdraw themselves from the control of adverse circumstances, viz. the farmers and cultivators. To

paint the situation in which these unfortunates found themselves at that epoch, it is sufficient to cite the following passage, drawn from the Report published by the Board of Agriculture for the year 1816.

The return of paper-money to par, says the report,—" has caused the price of corn to fall in the same proportion, that is to say, 40 per cent. To pay the amount of his rent, the farmer must appropriate 54, instead of 30 quarters of wheat per hundred acres; he could not support such losses. The consequence was the farmers abandoned their farms to the proprietors. It was in vain that the latter made an allowance of 25 per cent. on their rent; in vain that some of them went as far as the half, as the farmers had still to pay imposts and taxes on the same nominal sums as before; and to fill up their misfortunes, as the harvests of 1814 and 1815 were very abundant, which still more reduced the price of corn, all these concessions were insufficient, and at the commencement of 1816 the farmers owed arrears of rent, taxes, poor-rates, and church-rates. They fled when they could, or came and placed themselves on the list of the poor of their parishes—some were put into prison."

Such are the effects which an elevation of the value of a paper-money has produced in England, and which it cannot fail to produce everywhere. If any one believes that these effects would have been less distressing if the elevation in the value of the currency had taken place more gradually, they are mistaken; it is, on the contrary, when an evil makes itself most felt, that those who suffer make the greatest efforts to relieve themselves from it, and that they most easily succeed in overcoming the resistance of those who ought to share it, if it is to be rendered supportable. If the farmers of England, instead of losing at one blow 40 per cent of their incomes, had but lost five per cent.

successively each year, would they have resolved to abandon their farms, and would the proprietors have consented to diminish their rent? Certainly the former would have hoped for a favourable change next year, and the latter would not have failed to confirm them in that hope. In the maladies of the human body a decisive crisis is always preferable to a state of languor; the first may save the patient, the second kills him, infallibly, though later. As reason and experience agree in proving that the elevation of the value of a paper currency is not less contrary to public prosperity than its depreciation, why do Governments make such efforts to attain an end so little desirable? Do they suppose that their honor and loyalty are interested in re-establishing in its entire value a paper which they have issued? *

If so, why do they not act in the same manner in regard to their metallic money? No one is ignorant that, after the discovery of the New World, Silver gradually sank in value in the proportion of 4 to 1. It never on that account entered into the head of any statesman to augment, in the same proportion, the quantity of Silver contained in coins. It is known that the pound sterling, the livre Turnois, the liré of Italy, and the mark of Germany, originally contained a pound livre or mark of fine silver, and that they have been reduced to their present value by bad financial measures: in spite of this no administration has ever thought of restoring to these different coins their primitive value; and if this idea had ever occurred to any, the difficulty of executing it would certainly have prevented their doing so.

In effect, if it had been desired to substitute a coin containing a mark or livre of Silver for that which circulated,

* In England this effort was made from a principal of honor, and to redeem the pledged word of Parliament, which is no where pledged, that I am aware, under any circumstances, to alter the weight of the sovereign.

and did not contain a quarter, an eighth, or a sixteenth, would it not have been necessary to reduce all public imposts by a quarter, an eighth, or a sixteenth? Would it not have been necessary to prescribe to all creditors, to all proprietors, to reduce in the same proportion all their demands and rents?—in a word, to all subjects to reduce the value of existing contracts?

As far as I know, history cites but one example of a sovereign* who has wished to re-establish the money of his kingdom on the footing of years long before himself, but his loyal intentions remained without effect, as he found himself forced to revoke his edict, of which the execution was proved impossible by the very trial he had made.

The times are passed when it was considered a good financial scheme to debase the coin in secret, and it is beginning to be perceived that a secret increase of paper-money is as little profitable. Thus nations have no longer to fear that their currency will be depreciated; it would be singular if for the future they had to dread efforts which may be made to appreciate it. These efforts indeed would be prompted by more noble motives, but followed unfortunately by exactly the same results.

May the administrators of public affairs be convinced of this grand truth—that it is not in giving cause to variations in the value of paper-money that they can improve it, but in rendering its value as invariable as possible. It is toward this end that all efforts should be directed, and it can be attained without great sacrifice.

* It is the Emperor Paul I. who is alluded to here. Since 1762 the rouble had contained only 4 zolotmicks 21 doles of fine silver, while the first rouble struck under Peter the Great contained 5 zol. 67 doles. The Emperor Paul ordered in 1797 that roubles should be struck containing 6 zol. He wished to render his coin better than it had originally been. A certain quantity was put in circulation, but eight months later the old rate was re-established. A rouble of this issue passed as 1 ro. 42 copecks of the actual money.

Pelham Richardson, Printer, 23, Cornhill.

END OF
TITLE